

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-05 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 PA-02 PRS-01 AGRE-00 DOE-12 SOE-01 /121 W
-----002253 231152Z /10

P R 231135Z DEC 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 1572
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS

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USEEC

TREASURY PASS WIDMAN

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT FURTHER PRESS COMMENT ON PRESIDENT CARTER'S
EXCHANGE RATE POLICY STATEMENT

REF: LONDON 20758

1. FURTHER COMMENT ON PRESIDENT CARTER'S STATEMENT ON EX-
CHANGE RATE POLICY WAS PROVIDED IN THIS MORNING'S PRESS.
SEVERAL PAPERS REPORTED THAT DEALERS NOTED THAT YESTER-
DAY'S IMPROVEMENT IN THE DOLLAR(WHICH AT ONE POINT SAW
THE POUND DOWN 3 CENTS ON ITS WEDNESDAY CLOSE) HAD OC-
CURRED IN A VERY THIN MARKET, AND QUESTIONED WHETHER SUCH
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IMPROVEMENT COULD BE MAINTAINED IN THE ABSENCE OF FIRM
ACTION. EDITORIAL COMMENTS WERE MIXED, AS ILLUSTRATED BY
THE FOLLOWING EXCERPTS.

2. THE LEX COLUMN OF THE FINANCIAL TIMES WRITES:
QUOTE: BANKERS ARE STILL NOT CONVINCED THAT THE U.S. AU-
THORITIES ARE DOING ANYTHING MORE THAN MAKING THE APPRO-

PRIATE NOISES TO SOOTHE THEIR EUROPEAN COUNTERPARTS. THE U.S. TRADE DEFICIT IS EXPECTED TO BE IN THE REGION OF \$30 BILLION THIS YEAR AND NEXT, AND MR. CARTER'S STATEMENT IS NOT GOING TO ALTER THAT. THE MEASURES TO BOOST DOMESTIC OIL PRODUCTION ARE PEANUTS IN THE CONTEXT OF U.S. IMPORTS AND THE ADMINISTRATION IS GIVING NO CLUES ABOUT ITS FUTURE INTERVENTION POLICY SAVE TO SAY IT WILL "COUNTER DISORDERLY CONDITIONS."

INDEED TREASURY OFFICIALS DESCRIBE THE PRESIDENT'S MESSAGE AS A "STRONG CLARIFICATION OF U.S. INTERVENTION POLICY" -- IT DOES NOT REPRESENT A CHANGE. CONSEQUENTLY, IT SEEMS PRETTY CERTAIN THAT IN THE ABSENCE OF ANY CONCRETE MEASURES, SUCH AS AN EFFECTIVE ENERGY PROGRAMME OR AGGRESSIVE INTERVENTION BY THE FED, THE U.S. DOLLAR WILL CONTINUE TO OSCILLATE VIOLENTLY ONCE THE NEW YEAR HOLIDAYS ARE OVER. A STRAW POLL OF BANKERS YESTERDAY, FOR INSTANCE, THOUGHT THAT THE "RIGHT" LEVEL FOR THE DOLLAR/ MARK RATE IN 1978 WAS ANYWHERE BETWEEN DM2.20-DM1.90. END QUOTE.

3. THE TIMES LEADING EDITORIAL: QUOTE: THE IMMEDIATE EFFECT OF PRESIDENT CARTER'S STATEMENT THIS WEEK WAS TO STRENGTHEN THE DOLLAR ON THE FOREIGN EXCHANGES. ALTHOUGH THE PRESIDENT'S WORDS WERE NOT VERY DIFFERENT FROM THOSE SPOKEN BY HIS UNDER-SECRETARY FOR MONETARY AFFAIRS AT THE TREASURY, MR. ANTHONY SOLOMON, JUST A FEW WEEKS EARLIER, UNCLASSIFIED

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THE MARKETS ATTACH MORE WEIGHT TO THE PRONOUNCEMENTS OF A PRESIDENT.

THEY ARE PROBABLY RIGHT TO DO SO. THE ADMINISTRATION HAS RECENTLY BEEN MADE ACUTELY AWARE OF THE CONCERN OVERSEAS AT WHAT APPEARED TO BE AMERICAN INDIFFERENCE TO THE CURRENCY UPHEAVAL OF THE LAST FEW WEEKS. ...

AMERICA WOULD PREFER TO SEE INTERNAL ADJUSTMENT AND EXPANSION IN THE SURPLUS COUNTRIES, MOST PARTICULARLY GERMANY AND JAPAN, RATHER THAN TO UNDERWRITE THEIR TRADE SURPLUSES AND ENCOURAGE THEM TO PRESERVE UNDER-VALUED EXCHANGE RATES. IT HAS THEREFORE BEEN UNWILLING TO JOIN AN INTERNATIONAL SUPPORT OPERATION FOR THE DOLLAR WHICH WOULD OPPOSE FUNDAMENTAL MARKET FORCES.

THIS POSITION HAS NOT BEEN CHANGED BY PRESIDENT CARTER'S STATEMENT. HE HAS HOWEVER REAFFIRMED A COMMITMENT TO "ORDERLY MARKET CONDITIONS". WHILE SOME READJUSTMENT OF CURRENCY VALUES WAS NECESSARY IN VIEW OF THE MASSIVE IMBALANCE IN PAYMENTS POSITIONS, AN INTERNATIONAL CRISIS OF CONFIDENCE WOULD BE AS UNWELCOME TO THE AMERICANS AS TO ANY OTHER GOVERNMENT. ...

...PRESIDENT CARTER'S STATEMENT WAS NOT AIMED MERELY AT CALMING EUROPEAN AND JAPANESE NERVES. IT HAS BEEN RU-

MOURED THAT ARAB MINISTERS NOW ATTENDING THE OIL EXPORT-
ERS CONFERENCE KNEW THAT IT WAS COMING. WHETHER OR NOT
THIS IS THE CASE, THE PRESIDENT WAS OBVIOUSLY AWARE THAT

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A CONTINUED WEAKENING OF THE DOLLAR WOULD INCREASE THE
LIKELIHOOD OF A RISE IN AMERICA'S HUGE OIL IMPORT BILL.
THIS COULD COME THROUGH A SWITCH BY OPEC TO PRICING IN
OTHER CURRENCIES, OR THROUGH A RISE IN THE QUOTED DOLLAR
PRICE.

A CHRONICALLY WEAK DOLLAR WOULD ALSO MAKE THE OPEC
COUNTRIES THINK TWICE ABOUT INVESTING THEIR REVENUES IN
AMERICA. A LARGE SWITCH IN THESE FUNDS WOULD THROW THE
WORLD'S ALREADY SHAKY MONETARY SYSTEM INTO CONFUSION.
THERE IS YET ANOTHER CONSTITUENCY TO WHICH THE PRESIDENT
AIMED HIS SPEECH. THIS IS THE AMERICAN CONGRESS, WHICH
IS STILL DALLING OVER MR. CARTER'S ENERGY BILL. THE CON-
SPICUOUS FAILURE OF THE UNITED STATES TO CURB ITS VORA-
CIOUS APPETITE FOR OIL HAS BEEN A MAJOR CONTRIBUTING
FACTOR TO ITS TRADE DEFICIT THIS YEAR. ...

THE ADMINISTRATION IS NOT LIKELY TO CHANGE ITS VIEW

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OF THE NEED FOR FURTHER ECONOMIC EXPANSION NEXT YEAR, AND IT WOULD DAMAGE THE PROSPECTS FOR WORLD GROWTH IF IT DID. HOWEVER, THERE IS AN URGENT NEED FOR ACTION TO CUT AMERICAN OIL IMPORTS. THE MEASURES ANNOUNCED THIS WEEK ARE LITTLE MORE THAN A GESTURE IN THAT DIRECTION.

FOREIGN GOVERNMENTS HAVE WELCOMED THE PRESIDENT'S RECOGNITION OF AMERICA'S RESPONSIBILITY TO THE REST OF THE WORLD. IT IS TOO SOON TO TELL HOWEVER WHETHER THE ADMINISTRATION WILL BE WILLING, IN THE WORDS OF THE MARKETS, "TO PUT THEIR MONEY WHERE THEIR MOUTH IS" AND INTERVENE IF NECESSARY TO STOP A FURTHER FALL IN THE DOLLAR'S VALUE.

THERE IS STILL NO REASON TO SUPPOSE THAT AMERICA SHOULD CARRY THE WHOLE BURDEN OF WORLD EXPANSION, ALTHOUGH THERE IS A STRONG CASE FOR BELIEVING THAT THE MARKET HAS OVERDONE THE RECENT FALL IN THE DOLLAR. END QUOTE.

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